

BEFORE THE ARIZONA CORPORATION COMMISSION



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COMMISSIONERS

DOUG LITTLE, Chairman

BOB STUMP

BOB BURNS

TOM FORESE

ANDY TOBIN

ORIGINAL

IN THE MATTER OF THE APPLICATION OF  
LIBERTY UTILITIES (BELLA VISTA WATER)  
CORP., AN ARIZONA CORPORATION, FOR  
A DETERMINATION OF THE FAIR VALUE  
OF ITS UTILITY PLANTS AND PROPERTY  
AND FOR INCREASES IN ITS WATER  
RATES AND CHARGES FOR UTILITY  
SERVICE BASED THEREON.

Docket No. W-02465A-15-0367

IN THE MATTER OF THE APPLICATION OF  
LIBERTY UTILITIES (BELLA VISTA WATER)  
CORP., AN ARIZONA CORPORATION, FOR  
AUTHORITY TO ISSUE EVIDENCE OF  
INDEBTEDNESS IN AN AMOUNT NOT TO  
EXCEED \$4,700,000.

Docket No. W-02465A-15-0370

IN THE MATTER OF THE APPLICATION OF  
LIBERTY UTILITIES (RIO RICO WATER &  
SEWER) CORP., AN ARIZONA  
CORPORATION, FOR A DETERMINATION  
OF THE FAIR VALUE OF ITS UTILITY  
PLANTS AND PROPERTY AND FOR  
INCREASES IN ITS WATER AND  
WASTEWATER RATES AND CHARGES  
FOR UTILITY SERVICE BASED THEREON.

Docket No. WS-02676A-15-0368

IN THE MATTER OF THE APPLICATION OF  
LIBERTY UTILITIES (RIO RICO WATER &  
SEWER) CORP., AN ARIZONA  
CORPORATION, FOR AUTHORITY TO  
ISSUE EVIDENCE OF INDEBTEDNESS IN  
AN AMOUNT NOT TO EXCEED \$8,900,000.

Docket No. WS-02676A-15-0371

Arizona Corporation Commission  
DOCKETED

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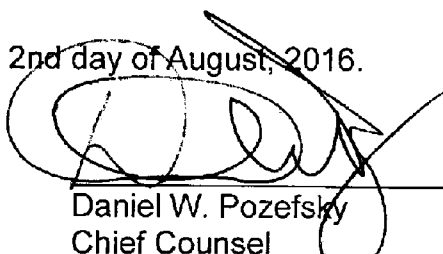
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1 **NOTICE OF FILING**

2 The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing  
3 the Testimony of Robert B. Mease in support of the Settlement Agreement, in the above  
4 referenced matter.

5 RESPECTFULLY SUBMITTED this 2nd day of August, 2016.

6   
7 Daniel W. Pozefsky  
8 Chief Counsel

9 AN ORIGINAL AND THIRTEEN COPIES  
10 of the foregoing filed this 2nd day  
of August, 2016 with:

11 Docket Control  
12 Arizona Corporation Commission  
1200 West Washington  
13 Phoenix, Arizona 85007

14 COPIES of the foregoing hand delivered/  
mailed this 2nd day of August, 2016 to:

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LIBERTY UTILITIES CORPORATION  
(BELLA VISTA WATER AND RIO RICO WATER AND SEWER)  
DOCKET NOS. W-02465A-15-0367 et al.

SETTLEMENT TESTIMONY  
OF  
ROBERT B. MEASE

ON BEHALF OF THE  
RESIDENTIAL UTILITY CONSUMER OFFICE

AUGUST 2, 2016

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## EXECUTIVE SUMMARY

The Arizona Residential Utility Consumer Office ("RUCO") presents the direct testimony of Mr. Robert B. Mease, Chief of Accounting and Rates for RUCO, in support of the Proposed Settlement Agreement ("Settlement" or "Agreement") on Liberty Utilities Corps. request for a permanent rate increase for both its Bella Vista Water and Rio Rico Water and Wastewater systems. Mr. Mease recommends that the Arizona Corporation Commission adopt the Proposed Settlement Agreement for the following reasons:

The Proposed Settlement Agreement reflects an outcome that is fair to both the ratepayer and Bella Vista Water and Rio Rico Water and Wastewater and is in the public interest.

The Proposed Settlement Agreement is a comprehensive settlement agreement. Its terms settle a wide range of issues that were of interest to the parties.

RUCO supports the Proposed Settlement Agreement in its entirety because it contains numerous benefits to the consumer which will be discussed in Mr. Mease's testimony.

The Proposed Settlement Agreement resolves many issues related to rate base and expense items and the company's revenue requirement for both Bella Vista Water and Rio Rico Water and Wastewater was reduced from \$2,464,476 to a final agreed upon revenue increase of \$1,935,482. In addition, the proposed agreement resolves several additional areas that RUCO considers important including; 1) reaching agreement on the Company's corporate allocation manual ("CAM"); 2) agreement to Cost of Equity of 9.70%, and Cost of Debt of 3.10%; 3) the Company's decision to drop their request for a Fair Value Arizona Rate Evaluation or "FARE" model; and 4) all proposed surcharges and adjustor mechanisms were either eliminated or incorporated into the proposed agreement.. These issues were addressed satisfactorily in the Proposed Settlement Agreement and will be explained more fully in Mr. Mease's testimony.

**INTRODUCTION**

**Q. Please state your name, occupation and business address for the record.**

A. My name Robert B. Mease. I am Chief of Accounting and Rates for the Arizona Residential Utility Consumer Office ("RUCO"). My business address is 1110 W. Washington Street, Suite 220, Phoenix, Arizona 85007.

**Q. Please state your background and qualifications for the record.**

A. I joined RUCO in October of 2011 and was elevated to Chief of Accounting and Rates in August of 2013. I am a Certified Public Accountant ("CPA") and currently licensed in the state of West Virginia, as well as a Certified Rate of Return Analyst ("CRRRA"). My years of work experience includes serving as Vice President and Controller of Energy West, Inc. a public utility and energy company located in Great Falls, Montana. While with Energy West, I had responsibility for all utility filings and participated in several rate case filings on behalf of the utility. As Energy West was a publicly traded company listed on the NASDAQ Exchange, I also had responsibility for all filings with the Securities and Exchange Commission.

1    **Q.    What is the purpose of your testimony?**

2    A.    The purpose of my testimony is to explain RUCO's support of the Liberty  
3           Utilities Corp. (Bella Vista and Rio Rico's Water and Wastewater)  
4           Proposed Settlement Agreement ("Settlement or Agreement").  
5

6    **Q.    Have you participated in other settlement negotiations?**

7    A.    Yes. I have participated in settlement negotiations in other matters that  
8           have come before the Arizona Corporation Commission ("ACC" or  
9           "Commission"). These negotiations have resulted in reaching an accord  
10          with the utility and the other settling parties, leading to the signing and  
11          support of a settlement agreement.  
12

13    **THE SETTLEMENT PROCESS**

14    **Q.    Was the negotiation process that resulted in the Settlement**  
15          **Agreement a proper and fair process?**

16    A.    Yes. The Agreement is the result of numerous hours of negotiation and a  
17          willingness among the parties to compromise. The negotiations were  
18          conducted in a fair and reasonable way that allowed each party the  
19          opportunity to participate. All parties had an opportunity to participate in  
20          the negotiation. Furthermore, all parties were allowed to express their  
21          positions fully.  
22  
23



1 **Q. Did all the parties sign the Agreement?**

2 A. Yes. All parties in this case have agreed to this Settlement.

3

4 **Q. Why is a negotiated settlement process an appropriate way to**  
5 **resolve this matter?**

6 A. By its very nature, a settlement finds middle ground that the parties can  
7 support. All parties that participated in the settlement talks were  
8 sophisticated parties who participated fully in the ACC's regulatory  
9 processes.

10

11 Settlement negotiations began only after each party had the opportunity  
12 to analyze Bella Vista and Rio Rico's Application(s), file direct and rebuttal  
13 testimony's, and evaluate the direct and surrebuttal testimony's of other  
14 Interveners. This Agreement in no way eliminates the ACC's constitutional  
15 right and duty to review this matter and to make its own determination,  
16 whether the Agreement is truly balanced and the rates are just and  
17 reasonable.

18

19 **SUMMARY OF TESTIMONY**

20 **Q. Please summarize your testimony.**

21 A. The Agreement reflects an outcome that is fair to the consumer and to  
22 both Bella Vista and Rio Rico and is in the public interest. Furthermore,  
23 this is a comprehensive agreement. Its terms settle a wide range of issues

1           that were of interest to the parties. RUCO supports the Agreement in its  
2           entirety because it contains numerous benefits to the consumer. Those  
3           benefits include; 1) reducing the Company's revenue increase from  
4           \$2,464,476 to \$1,935,482. 2) reaching agreement on the Company's  
5           corporate allocation manual ("CAM") and the expenses to be included in  
6           the allocation process; 3) agreement on the Cost of Equity of 9.70%, and  
7           Cost of Debt of 3.10%; 4) the Company's decision to drop their request for  
8           a Fair Value Arizona Rate Evaluation or "FARE" model in this case; and 5)  
9           all proposed surcharges and adjustor mechanisms were either eliminated  
10          or incorporated into the proposed agreement..

11  
12       **SETTLEMENT PROVISIONS**

13       **Q.    What are the most significant benefits to the residential consumer?**

14       A.    Among the more significant benefits to the residential consumer:

- 15           • The settlement agreement reduced the requested revenue increase by  
16           approximately \$529,000. All parties came to agreement on rate base  
17           items including fair value rate base, post-test year plant, Accumulated  
18           Deferred Income Taxes ("ADIT") balances, Advances In Aid of  
19           Construction, Corporate Plant and Cash Working Capital. In addition,  
20           all parties came to agreement on certain expenses such as operating  
21           expenses, depreciation, contract professional services, salaries and  
22           wages expense, incentive pay and declining usage adjustments.

- 1       • The Company, RUCO and Staff reached agreement on the
- 2       methodology and the types of expenses that can be allocated to the
- 3       Company's Arizona's systems in this case, as well as going forward.
- 4       • Agreement on Cost of Equity of 9.70% and Cost of Debt of 3.10% - In
- 5       its initial filing Liberty Bella Vista Water had requested 11.60% Cost of
- 6       Equity and 3.47% Cost of Debt while Liberty Rio Rico was requesting
- 7       10.80% Cost of Equity and also a 3.47% Cost of Debt.
- 8       • The Company dropped its request for a FARE program which was
- 9       being introduced as a trial program and was to give the Company the
- 10      opportunity to increase rates between rate case applications without
- 11      determining fair value from RUCO's perspective.
- 12      • Surcharges and Adjustment Mechanisms eliminated -- Through
- 13      negotiations the Property Tax Adjuster Mechanism was eliminated.

14

15   **PUBLIC INTEREST**

16   **Q.   How is the public interest satisfied by the Agreement?**

17   A.   The Settlement Agreement satisfies the public interest from RUCO's

18       perspective in that it provides favorable terms and protections for

19       residential consumers as defined above. The Agreement also satisfies the

20       public interest by providing a fair and balanced approach to addressing

21       the Company's concerns on required costs and revenue.

22

23

- 1 **Q. Does this conclude your testimony on the Agreement?**
- 2 **A. Yes it does.**